

CITY OF STEPHENSON  
REPORT ON FINANCIAL STATEMENTS  
AND OTHER FINANCIAL INFORMATION  
YEAR ENDED JUNE 30, 2004

## AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name CITY OF STEPHENSON	County MENOMINEE
Audit Date JUNE 30, 2004	Opinion Date JULY 23, 2004	Date Accountant Report Submitted to State: JULY 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan, by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

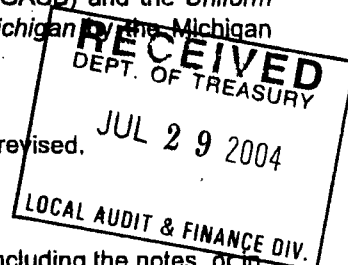
You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ yes ☒ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

### We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.			X
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) RAY PAYMENT, CPA			
Street Address 1217 LUDINGTON STREET	City ESCANABA	State MI	ZIP 49829
Accountant Signature 			



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July 23, 2004

INDEPENDENT AUDITOR'S REPORT

Honorable City Council  
City of Stephenson  
Stephenson, Michigan

I have audited the combined financial statements of the City of Stephenson as of June 30, 2004, and the related statements of revenues and expenditures and fund balances for the year then ended. These financial statements are the responsibility of the City's management. My responsibility is to express an opinion on these financial statements based on my audit.


I conducted my audit in accordance with auditing standards generally accepted in the United States of America, Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinion.

Management has not presented government-wide statements to display the financial position and changes in financial position of its governmental activities, business-type activities, and discretely presented component units. Accounting principles generally accepted in the United States of America require the presentation of government-wide financial statements. The amounts that would be reported in government-wide financial statements for the City's governmental activities and business-type activities are not reasonably determinable.

In my opinion, except for the effects of the omission of the government-wide statements, as discussed above, the financial statements referred to in the first paragraph present fairly, in all material respects, the financial position of the various funds of the City of Stephenson at June 30, 2004, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

July 23, 2004

The financial statements referred to in the foregoing opinion are identified in the contents of this report. My examination was made primarily for the purpose of rendering an opinion on these basic financial statements, taken as a whole. The supplementary financial data identified in the contents, although not considered necessary for a fair presentation of the assets and liabilities of the various funds of the City of Stephenson at June 30, 2004 is presented primarily for supplement analysis purposes. This additional information has been subjected to the audit procedures applied in the examination of the basic financial statements and, in my opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.



Ray L. Payment  
Certified Public Accountant

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - ALL FUND TYPES AND ACCOUNT GROUPS  
JUNE 30, 2004

	<u>Governmental Fund Types</u>	
	<u>General</u>	<u>Special Revenue</u>
<u>ASSETS</u>		
CURRENT ASSETS:		
Cash	\$ 344 920	\$ 52 570
Accounts receivable	230	1 165
TOTAL CURRENT ASSETS	345 150	53 735
PROPERTY, PLANT & EQUIPMENT (Note 1):		
Land	-	-
Plant and equipment	-	-
Total	-	-
Less accumulated depreciation	-	-
NET Property, Plant and Equipment	-	-
OTHER ASSETS:		
Restricted Assets - Funded Equipment Cash	48 716	-
- Metro Act Cash	4 644	-
Bond Reserve Account	-	-
TOTAL ASSETS	\$ 398 510	\$ 53 735
<u>LIABILITIES AND FUND EQUITY:</u>		
LIABILITIES:		
Accounts payable	\$ 5 895	\$ 1 303
Payroll taxes withheld & due govt. units	-	-
Customer deposits	-	-
Bonds payable	-	-
TOTAL LIABILITIES	5 895	1 303
FUND EQUITY:		
INVESTMENT IN GENERAL FIXED ASSETS	-	-
FUND BALANCES AND RETAINED EARNINGS -		
UNRESTRICTED	339 255	52 432
FUND BALANCES AND RETAINED EARNINGS -		
RESTRICTED	53 360	-
TOTAL LIABILITIES AND FUND EQUITY	\$ 398 510	\$ 53 735

See notes to financial statements.

<u>Proprietary Fund Type</u>	<u>Fiduciary Fund Type</u>	<u>Account Groups</u>
<u>Utility Funds</u>	<u>Trust &amp; Agency</u>	<u>General Fixed Assets</u>
\$ 881 452	\$ 7 200	\$ -
59 289	-	-
<u>940 741</u>	<u>7 200</u>	<u>-</u>
12 600	-	-
<u>2 756 895</u>	<u>-</u>	<u>808 654</u>
2 769 495	-	808 654
( 649 522)	-	-
<u>2 119 973</u>	<u>-</u>	<u>808 654</u>
229 800	-	-
-	-	-
<u>37 380</u>	<u>-</u>	<u>-</u>
\$ 3 327 894	\$ 7 200	\$ 808 654
<u>                    </u>	<u>                    </u>	<u>                    </u>
\$ 42 677	\$ -	\$ -
-	-	-
-	7 200	-
<u>874 000</u>	<u>-</u>	<u>-</u>
<u>916 677</u>	<u>7 200</u>	<u>-</u>
-	-	808 654
2 144 037	-	-
<u>267 180</u>	<u>-</u>	<u>-</u>
\$ 3 327 894	\$ 7 200	\$ 808 654
<u>                    </u>	<u>                    </u>	<u>                    </u>

CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES AND EXPENDITURES  
AND CHANGES IN FUND BALANCES  
ALL GOVERNMENTAL FUND TYPES  
YEAR ENDED JUNE 30, 2004

	General Fund	Special Revenue Funds	Proprietary Fund Type
REVENUES:			
Property taxes - Current	\$ 48 396	\$ -	\$ -
- Collection Fees	3 237	-	-
- Delinquent	5 770	-	-
State shared taxes	77 047	-	-
State grants - Motor Vehicle Highway Fund	-	90 956	-
Liquor law enforcement	-	554	-
Interest	5 095	-	15 215
Parking and City fines	812	-	-
Other reimbursements & misc.	1 626	477	33 382
Services rendered and rents	19 383	-	2 441
Utilities collections	-	-	680 368
Metro Act	4 846	-	-
TOTAL REVENUES	<u>166 212</u>	<u>91 987</u>	<u>731 406</u>
EXPENDITURES: (DETAIL PAGES 19 & 20)			
City council	19 599	-	-
Mayor	300	-	-
Elections	621	-	-
General services	43 499	-	-
Fire department	11 400	-	-
Sanitation	6 165	-	-
Parks	32 174	-	-
Highways and streets	-	121 548	-
Law enforcement	12 766	554	-
Utility expenses	-	-	696 058
Services to other funds	1 179	-	-
Administrative	9 439	-	-
TOTAL EXPENDITURES	<u>137 142</u>	<u>122 102</u>	<u>696 058</u>
EXCESS REVENUES (EXPENDITURES)	<u>29 070</u>	<u>( 30 115)</u>	<u>35 348</u>
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	25 000	-
Outgoing transfers	( 25 000)	-	-
TOTAL OTHER FINANCING SOURCES (USES)	<u>( 25 000)</u>	<u>25 000</u>	<u>-</u>
EXCESS REVENUES AND OTHER SOURCES (EXPENDITURES & OTHER USES)	4 070	( 5 115)	35 348
FUND BALANCES, beginning of year	<u>388 545</u>	<u>57 547</u>	<u>2 375 869</u>
FUND BALANCES, end of year	<u>\$ 392 615</u>	<u>\$ 52 432</u>	<u>\$2 411 217</u>

See notes to financial statements.



CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES, EXPENDITURES,  
AND CHANGES IN FUND BALANCES - BUDGET AND ACTUAL  
GENERAL AND SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2004

	General Fund		Variance
	Actual Amount	Budget Amount	Favorable (Unfavorable)
CASH REVENUES:			
Property taxes			
- Current and in-lieu	\$ 48 396	\$ 46 000	\$ 2 396
- Collection fees	3 237	100	3 137
- Delinquent	5 770	-	5 770
State shared taxes	77 047	82 500	( 5 453)
State grants - Motor Vehicle Highway Fund	-	-	-
Liquor law enforcement	-	-	-
Interest	5 095	5 000	95
Fines	812	400	412
Services rendered and rents	19 383	17 050	2 333
Other reimbursements & misc.	1 626	-	1 626
Metro Act	4 846	-	4 846
TOTAL REVENUES	166 212	151 050	15 162
EXPENDITURES:			
City council	19 599	24 972	5 373
Mayor	300	1 500	1 200
Elections	621	1 150	529
General services	43 499	51 327	7 828
Fire department	11 400	12 910	1 510
Sanitation	6 165	6 628	463
Parks	32 174	38 030	5 856
Highways and streets	-	-	-
Law enforcement	12 766	22 194	9 428
Services from other funds	1 179	1 179	-
Administrative	9 439	13 340	3 901
TOTAL EXPENDITURES	137 142	173 230	36 088
EXCESS REVENUES (EXPENDITURES)	29 070	( 22 180)	51 250
OTHER FINANCING SOURCES (USES):			
Incoming transfers	-	-	-
Outgoing transfers	( 25 000)	( 25 000)	-
TOTAL OTHER FINANCING SOURCES (USES)	( 25 000)	( 25 000)	-
EXCESS REVENUE AND OTHER SOURCES (EXPENDITURES & OTHER USES)	4 070	( 47 180)	51 250
FUND BALANCES, beginning of year	388 545	388 545	-
FUND BALANCES, end of year	\$ 392 615	\$ 341 365	\$ 51 250

See notes to financial statements.

Special Revenue Funds		
Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
\$ -	\$ -	\$ -
-	-	-
-	-	-
-	-	-
90 956	82 000	8 956
554	525	29
-	2 100	( 2 100)
-	-	-
-	-	-
477	-	477
-	-	-
91 987	84 625	7 362
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
-	-	-
121 548	171 735	50 187
554	525	( 29)
-	-	-
-	-	-
122 102	172 260	50 158
( 30 115)	( 87 635)	57 520
25 000	87 635	( 62 635)
-	-	-
25 000	87 635	( 62 635)
( 5 115)	-	( 5 115)
57 547	57 547	-
\$ 52 432	\$ 57 547	\$ ( 5 115)

CITY OF STEPHENSON  
STATEMENTS OF REVENUES AND EXPENDITURES,  
AND CHANGES IN FUND BALANCE  
UTILITY FUND  
YEAR ENDED JUNE 30, 2004

	Electric Fund	Sewer Fund	Water Fund
OPERATING REVENUES:			
Charges for services:			
Electric and sales tax	\$ 420 816	\$ -	\$ -
Sewer	-	158 496	-
Water	-	-	101 056
Service charges and rents	1 272	250	919
Reimbursements and refunds	30 840	2 018	524
TOTAL OPERATING REVENUES	452 928	160 764	102 499
OPERATING EXPENDITURES:			
(Detail of Pages 25-26)			
Electric	407 914	-	-
Sewer - collection	-	13 647	-
Sewer - operating	-	172 745	-
Water	-	-	60 984
TOTAL OPERATING EXPENDITURES	407 914	186 392	60 984
OPERATING INCOME (LOSS)	45 014	( 25 628)	41 515
NONOPERATING REVENUES			
(EXPENDITURES):			
Interest income	11 963	253	2 999
Interest on Bonds	-	( 16 988)	( 23 780)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 56 977	\$ ( 42 363)	\$ 20 734
RETAINED EARNINGS, at beginning of period	1 206 298	897 239	272 332
RETAINED EARNINGS, at end of period	\$1 263 275	\$ 854 876	\$ 293 066

See notes to financial statements.

CITY OF STEPHENSON  
STATEMENTS OF CASH FLOWS  
YEAR ENDED JUNE 30, 2004

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	<u>Electric</u>	<u>Sewer</u>	<u>Water</u>
CASH FLOWS FROM OPERATING ACTIVITIES:			
Net income	\$ 56 977	\$ (42 363)	\$ 20 734
Non-cash expenses included in net income:			
Depreciation	21 826	40 664	15 637
Increase in accounts payable- (receivable)	<u>1 248</u>	<u>1 149</u>	<u>1 153</u>
NET CASH PROVIDED BY OPERATING ACTIVITIES	<u>80 051</u>	<u>( 550)</u>	<u>37 524</u>
CASH FLOWS FROM FINANCING ACTIVITIES:			
Increase in property, plant and equipment - (net)	( 2 457)	( 406)	( 803)
Increase (decrease) in bonds issued	<u>-</u>	<u>( 5 000)</u>	<u>( 56 000)</u>
NET CASH (USED) BY FINANCING ACTIVITIES	<u>( 2 457)</u>	<u>( 5 406)</u>	<u>( 56 803)</u>
NET INCREASE (DECREASE) IN CASH	77 594	( 5 956)	( 19 279)
CASH, BEGINNING OF YEAR	<u>767 647</u>	<u>105 234</u>	<u>223 392</u>
CASH, END OF YEAR	<u>\$ 845 241</u>	<u>\$ 99 278</u>	<u>\$ 204 113</u>

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ACCOUNTING POLICIES

Basis of Accounting

The basis of accounting refers to when revenues and expenditures or expenses are recognized in the accounts and reported in the financial statements. The basis of accounting related to the timing of the measurements made, regardless of the measurement focus applied.

All of the funds of the City are accounted for using the modified accrual basis, wherein revenues are recognized when they become susceptible to accrual (i.e. when they become both measurable and available to finance expenditures of the current period) and expenditures are generally recognized when the related fund liability is incurred when certain exceptions such as interest on long-term debt which is generally recognized when due.

Fund Accounting

The major focus of a governmental accounting and reporting system is to show adherence to applicable legal provisions, and to determine fairly and with full disclosure the financial position and results of financial operations of each accounting entity within a governmental unit.

In accordance with the above criteria, the accounts of the City of Stephenson are organized on a basis of individual funds or account groups, each of which is considered a separate accounting entity. Each fund is accounted for with a separate, self-balancing set of accounts that comprise its assets, liabilities, equities, revenues, and expenditures or expenses as appropriate. Governmental resources are allocated to an account for in individual funds based upon the purpose for which they are to be spent and the means by which spending activities are controlled. The various funds are grouped, in the financial statement in this report, into fund categories as follows:

General Fund - This fund is the general operating fund of the City. It is used to account for all financial resources except those required to be accounted for in another fund.

Special Revenue Funds - These funds are used to account for specific governmental revenues requiring separate accounting because of legal or regulatory provisions or administrative action.

Enterprise Fund - Enterprise Funds report activities that are financed primarily by user charges. The City's Utility Fund is an Enterprise Fund.

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 1 - ACCOUNTING POLICIES

General Fixed Assets (Continued)

Fiduciary Fund - The Trust and Agency Fund is used to account for assets held in trust or as an agent for others. Agency Funds are custodial in nature (assets equal liabilities) and do not involve measurement of results of operations.

ACCOUNT GROUPS

General Fixed Assets Account Group

This account group presents the fixed assets of the City. General Fixed Assets purchased are recorded as expenditures in their respective funds. Such assets are capitalized at cost in the general fixed asset group.

PROPERTY, PLANT, AND EQUIPMENT - UTILITY FUNDS

Fixed assets consisting of property plant and equipment are carried at cost. Depreciation is calculated over the estimated useful life of the fixed assets using the straight-line method. The City has elected to decrease contributions in aid of construction by the corresponding purchase of assets purchased by contributed capital.

Budgets and Budgetary Accounting

As set forth in the City Charter, the City adopts annual budgets for the General Fund and Special Revenue Funds. The annual budgets are prepared in accordance with the basis of accounting utilized by those funds. The City Council is authorized to transfer budgeted amounts within and among departments. Subsequent to year-end, the Council adopts an amended budget approving any transfers among departments or additional expenditures. The amended budgets are presented on page 7. All appropriations lapse at fiscal year-end.

NOTE 2- DESCRIPTION OF RECORDING ENTITY

The City of Stephenson is located in Menominee County and provides services to its residents in many areas including community enrichment and development, and human services. In accordance with the provisions of NCGA Statement 3, certain other governmental organizations are not considered to be part of the City entity for financial reporting purposes. The criteria established by the NCGA for determining the various governmental organizations to be included in the reporting entity's financial statements include oversight responsibility, scope of public service, and special financial relationships. On this basis, accordingly, the financial statements of certain other governmental organizations are not included in the financial statements of the City. Educational services are provided through the Stephenson Area School System which is a separate governmental entity and, therefore, not presented in the financial statements included herein.

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 3 - STATEMENT OF REVENUES AND EXPENDITURES - BUDGET  
AND ACTUAL - GENERAL FUND

The above supplemental statement is not required in these statements because the combined statement on page 7 is detailed to the required revenue and activity level as shown in the Uniform Accounting Procedures Manual for Local Units of Government in Michigan.

NOTE 4 - CASH AND INTEREST-BEARING DEPOSITS

Deposits are carried at cost. Deposits of the City are in one bank in the name of the City of Stephenson. Michigan complied Laws, Section 124.91, authorizes the City Treasurer to deposit and invest in the accounts of federally insured banks, credit unions, and savings and loan associations; bonds, securities, and direct obligations of the United States, including securities issued or guaranteed by the Government National Mortgage Association; United States government or Federal agency obligation repurchase agreement; banker's acceptance of United States banks; mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan; and commercial paper rates by two standard rating agencies within the three highest classifications, which matures not more than 270 days after the date of purchase, and which involves no more than 50 percent of any one fund. Michigan law prohibits security in the form of collateral, surety bonds, or other forms for the deposit of public money. Attorney General's Opinion No. 6168 states that public funds may not be deposited in financial institutions located in states other than Michigan. The City's deposits are in accordance with statutory authority, and they have approved an investment and cash policy.

Governmental Accounting Standards Board (GASB) Statement No. 3 Risk Disclosure for the City's cash deposits are as follows:

<u>Deposits</u>	<u>Carrying Amount</u>
Insured	\$ 499 600
Non-insured	<u>1 107 082</u>
TOTAL DEPOSITS	<u>\$ 1 606 682</u>

NOTE 5 - PROPERTY TAX LEVY

The City levies taxes on a general law basis. The taxes included in these financial statements are the 2003 levy and are billed on a once per year basis. See schedules on page 22 for levy breakdown and millage rates. All unpaid taxes become delinquent March 1, of the following year. The City bills and collects its own property taxes. City property tax revenues are recognized when collected on the cash basis. All real property taxes are turned over to the County when delinquent and personal property taxes are collected and distributed by

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 5 - PROPERTY TAX LEVY (Continued)

the City. The County uses a revolving tax fund and reimburses the City yearly for any delinquent real property taxes.

A statewide referendum commonly known as Proposal A, took effect in 1994. Under this law, a new term, "Taxable Value", has been created. Proposal A limits annual increases in taxable value of property to the lesser of 5% or the rate of inflation. Initial taxable values, for 1994, were equal to state equalized values in that year.

NOTE 6 - USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

NOTE 7 - CASH FLOW INFORMATION

For purposes of the statement of cash flows, the Proprietary Fund considers all highly liquid investments (including restricted assets) with a maturity of three months or less when purchased to be cash equivalents.

NOTE 8 - RISK MANAGEMENT

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters.

The City purchases insurance coverage through a carrier. This plan purchases reinsurance for all risks. The City's expense is to pay only the annual premium. In addition, the City purchases worker's compensation insurance through the Accident Fund of Michigan.



CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 9 - SEWER REVENUE BONDS PAYABLE

The sewer revenue bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2004 the required amount in this fund was \$19,660 and \$19,660 was on deposit. The original issue amount was \$400,000 for Sewer Fund construction.

BOND ISSUE NO. 1

4 1/2% SEWER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
9/1/2003 thru 9/1/2006	\$ 5 000	\$ 15 000
9/1/2007 thru 9/1/2010	6 000	24 000
9/1/2011 thru 9/1/2013	7 000	21 000
9/1/2014 thru 9/1/2016	8 000	24 000
9/1/2017 thru 9/1/2019	9 000	27 000
9/1/2020 thru 9/1/2021	10 000	20 000
9/1/2022 thru 9/1/2023	11 000	22 000
9/1/2024 thru 9/1/2025	12 000	24 000
9/1/2026 thru 9/1/2027	13 000	26 000
9/1/2028	14 000	14 000
9/1/2029 thru 9/1/2030	15 000	30 000
9/1/2031	16 000	16 000
9/1/2032 thru 9/1/2033	17 000	34 000
9/1/2034	18 000	18 000
9/1/2035	19 000	19 000
9/1/2036	20 000	20 000
9/1/2037	21 000	21 000
Total Bond Issue No. 1		<u>\$ 375 000</u>

CITY OF STEPHENSON  
NOTES TO FINANCIAL STATEMENTS

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NOTE 10 - WATER BONDS PAYABLE

The water bond ordinance requires at least one-fourth of the interest and bond redemption requirements for the year be deposited in the bond and interest redemption fund and bond reserve fund each quarter. At June 30, 2004 the required amount in this fund was \$17,720 and \$17,720 was on deposit. The original issue amount was \$572,000 for Water Fund construction.

WATER BOND ISSUE NO. 1

4 1/2% WATER REVENUE BONDS

<u>Due Date</u>	<u>Amount of Annual Maturity</u>	<u>Outstanding June 30, 2004</u>
9/1/2001 thru 9/1/2004	\$ 6 000	\$ 6 000
9/1/2005 thru 9/1/2007	7 000	21 000
9/1/2008 thru 9/1/2010	8 000	24 000
9/1/2011 thru 9/1/2012	9 000	18 000
9/1/2013 thru 9/1/2015	10 000	30 000
9/1/2016 thru 9/1/2017	11 000	22 000
9/1/2018 thru 9/1/2019	12 000	24 000
9/1/2020 thru 9/1/2021	13 000	26 000
9/1/2022	14 000	14 000
9/1/2023 thru 9/1/2024	15 000	30 000
9/1/2025	16 000	16 000
9/1/2026 thru 9/1/2027	17 000	34 000
9/1/2028 thru 9/1/2029	19 000	38 000
9/1/2030	20 000	20 000
9/1/2031	21 000	21 000
9/1/2032	22 000	22 000
9/1/2033	23 000	23 000
9/1/2034	24 000	24 000
9/1/2035	25 000	25 000
9/1/2036	26 000	26 000
9/1/2037	27 000	27 000
9/1/2038 thru 9/1/2039	29 000	8 000
Total		<u>\$ 499 000</u>

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - UTILITY FUNDS  
JUNE 30, 2004

	Electric Fund	Sewer Fund	Water Fund
<u>ASSETS</u>			
CURRENT ASSETS:			
Cash	\$ 672 568	\$ 32 691	\$ 176 193
Accounts receivable	35 520	14 820	8 949
TOTAL CURRENT ASSETS	708 088	47 511	185 142
PROPERTY, PLANT & EQUIPMENT:			
Land	11 800	800	-
Plant and equipment	532 546	1 570 480	653 869
Total	544 346	1 571 280	653 869
Less accumulated depreciation	(132 496)	( 444 675)	( 72 351)
Net Property, Plant & Equipment	411 850	1 126 605	581 518
RESTRICTED ASSETS:			
Funded equipment	172 673	46 927	10 200
Bond and interest reserve accounts	-	19 660	17 720
TOTAL RESTRICTED ASSETS	172 673	66 587	27 920
TOTAL ASSETS	\$1 292 611	\$1 240 703	\$ 794 580
<u>LIABILITIES</u>			
Accounts payable	\$ 29 336	\$ 10 827	\$ 2 514
Bonds payable	-	375 000	499 000
TOTAL LIABILITIES	29 336	385 827	501 514
<u>RETAINED EARNINGS</u>			
RETAINED EARNINGS - UNRESTRICTED	\$1 090 602	\$ 788 289	\$ 265 146
RETAINED EARNINGS - RESTRICTED	172 673	66 587	27 920
TOTAL RETAINED EARNINGS	1 263 275	854 876	293 066
TOTAL LIABILITIES AND RETAINED EARNINGS	\$1 292 611	\$1 240 703	\$ 794 580

CITY OF STEPHENSON  
COMBINED BALANCE SHEET - SPECIAL REVENUE FUNDS  
JUNE 30, 2004

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	Major Street Fund	Local Street Fund	Liquor Fund
<u>ASSETS:</u>			
CASH	\$ 47 296	\$ 5 274	\$ -
ACCOUNTS RECEIVABLE	<u>-</u>	<u>1 165</u>	<u>-</u>
TOTAL ASSETS	<u>\$ 47 296</u>	<u>\$ 6 439</u>	<u>\$ -</u>
LIABILITIES - ACCOUNTS PAYABLE	874	429	-
FUND BALANCES	<u>46 422</u>	<u>6 010</u>	<u>-</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 47 296</u>	<u>\$ 6 439</u>	<u>-</u>

CITY OF STEPHENSON  
COMPARATIVE BALANCE SHEETS - UTILITY FUNDS  
JUNE 30, 2003 AND 2004

<u>ASSETS</u>	<u>Year Ended 2003</u>	<u>June 30, 2004</u>
PROPERTY, PLANT AND EQUIPMENT (Note 2):		
Property, plant and equipment	\$ 2 684 273	\$ 2 769 495
Less accumulated depreciation	<u>( 571 395)</u>	<u>( 649 522)</u>
Net property and equipment	<u>2 112 878</u>	<u>2 119 973</u>
RESTRICTED ASSETS:		
Bond and Interest Redemption Fund - Cash	32 015	37 380
Funded Equipment - Cash	<u>171 371</u>	<u>229 800</u>
Total restricted assets	<u>203 386</u>	<u>267 180</u>
CURRENT ASSETS:		
Cash on deposit	892 887	881 452
Accounts Receivable	<u>61 108</u>	<u>59 289</u>
TOTAL ASSETS	<u>\$ 3 270 259</u>	<u>\$ 3 327 894</u>
 <u>LIABILITIES, DEFERRED CREDITS AND RETAINED EARNINGS</u>		
RETAINED EARNINGS	\$ 2 294 313	\$ 2 411 217
LONG-TERM DEBT (Note 2):		
Revenue bonds payable - noncurrent portion	924 000	863 000
CURRENT LIABILITIES:		
Maturing bonds payable (Due January 1, 2004)	11 000	11 000
Accounts payable	<u>40 946</u>	<u>42 677</u>
TOTAL LIABILITIES AND RETAINED EARNINGS	<u>\$ 3 270 259</u>	<u>\$ 3 327 894</u>

See notes to financial statements.

CITY OF STEPHENSON  
COMPARATIVE STATEMENT OF REVENUES AND EXPENDITURES - UTILITY FUNDS  
YEAR ENDED JUNE 30, 2003 AND 2004

	Year Ended 2003	June 30, 2004
OPERATING REVENUES:		
Charges for services:		
Electric and sales tax	\$ 429 148	\$ 420 816
Sewer	159 845	158 496
Water	103 391	101 056
Service charges and rents	1 438	2 441
Reimbursements and refunds	36 105	33 382
TOTAL OPERATING REVENUES	729 927	716 191
OPERATING EXPENDITURES:		
Electric	383 211	407 914
Sewer - collection	14 283	13 647
Sewer - operating	159 894	172 745
Water	59 356	60 984
TOTAL OPERATING EXPENDITURES	616 744	655 290
OPERATING INCOME (LOSS)	113 183	60 901
NONOPERATING INCOME (EXPENDITURES):		
Interest income	7 940	15 215
Interest on bonds	( 42 595)	( 40 768)
EXCESS OF REVENUES OVER EXPENDITURES	\$ 78 528	\$ 35 348
RETAINED EARNINGS, at beginning of period	2 297 341	2 375 869
RETAINED EARNINGS, at end of period	\$ 2 375 869	\$ 2 411 217

See notes to financial statements.

CITY OF STEPHENSON  
COMBINED STATEMENT OF REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
ALL SPECIAL REVENUE FUNDS  
YEAR ENDED JUNE 30, 2004

	Major Street Fund	Local Street Fund	Liquor Fund
REVENUES:			
State grants	\$ 69 707	\$ 21 249	\$ -
Liquor law fees	-	-	554
Reimbursements & misc.	477	-	-
TOTAL REVENUES	70 184	21 249	554
EXPENDITURES:			
Routine maintenance:			
Salaries	4 534	1 837	-
Traffic services & nonmotorized	365	162	-
Maintenance	1 533	925	-
Equipment rent to General Fund	2 013	1 114	-
Insurance	476	252	-
Payroll taxes & fringe benefits	2 658	984	-
Utilities - to Electric Fund	5 181	1 824	-
Professional & contract services	93	84	-
Equipment rental	590	51	-
Capital outlay	135	68	-
Winter maintenance:			
Salaries	7 421	4 195	-
Repairs and maintenance	373	234	-
Insurance	418	222	-
Equipment rent to General Fund	8 426	5 233	-
Professional and contract	111	108	-
Equipment rental	1 209	1 087	-
Payroll taxes & fringe benefits	4 266	2 407	-
Capital outlay	135	68	-
Construction:			
Street const. & contract serv.	57 526	-	-
Professional services	33	33	-
Bridge construction	3 146	-	554
Easement fees	18	-	-
TOTAL EXPENDITURES	100 660	20 888	554
EXCESS OF REVENUES OVER (UNDER) EXPENDITURES	( 30 476)	361	-
OTHER FINANCING SOURCES (USES):			
Incoming (outgoing) transfers -			
- Local Streets	35 000	( 35 000)	-
- General Fund	25 000	-	-
EXCESS REVENUES (EXPENDITURES) AND OTHER SOURCES	29 524	( 34 639)	-
FUND BALANCE, at beginning of period	16 898	40 649	-
FUND BALANCE, at end of period	\$ 46 422	\$ 6 010	\$ -

See notes to financial statements.

CITY OF STEPHENSON  
STATEMENT OF CHANGES IN ASSETS AND LIABILITIES  
ALL FIDUCIARY FUND TYPES  
JUNE 30, 2004

	Balance July 1, 2003	Additions	Deductions	Balance June 30, 2004
<u>ASSETS</u>				
Cash	\$ 5 995	\$ 324 568	\$ 323 363	\$ 7 200
TOTAL ASSETS	\$ 5 995	\$ 324 568	\$ 323 363	\$ 7 200
<u>LIABILITIES</u>				
Due to other taxing units:				
State of Michigan withholding	\$ 295	\$ 4 073	\$ 4 368	\$ -
Customer deposits	5 700	6 300	4 800	7 200
City of Stephenson	-	52 153	52 153	-
Menominee County	-	88 784	88 784	-
Intermediate School District	-	22 642	22 642	-
Stephenson Area Schools	-	99 518	99 518	-
State of Michigan-S.E.T.	-	51 098	51 098	-
TOTAL LIABILITIES	\$ 5 995	\$ 324 568	\$ 323 363	\$ 7 200



CITY OF STEPHENSON  
STATEMENT OF CHANGES IN GENERAL FIXED ASSETS  
GENERAL FIXED ASSETS ACCOUNT GROUP  
YEAR ENDED JUNE 30, 2004

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	Balance July 1, 2003	(Deletions) Additions	Balance June 30, 2004
ASSETS:			
Office and D.P.W. Building	\$ 163 461	\$ -	\$ 163 461
Office equipment & fixtures	10 960	557	11 517
Equipment - streets	108 889	406	109 295
Recreation equipment	413 366	16 147	429 513
General equipment	54 956	8 000	62 956
Law enforcement	26 612	-	26 612
Sanitation equipment	1 445	3 855	5 300
	<hr/>	<hr/>	<hr/>
TOTAL ASSETS	\$ 779 689	\$ 28 965	\$ 808 654
	<hr/>	<hr/>	<hr/>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2004

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	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
<b>CITY COUNCIL:</b>			
Salaries	\$ 1 050	\$ 1 200	\$ 150
Community promotion	6 674	6 000	( 674)
Printing and publishing	678	750	72
Insurance	721	1 572	851
Miscellaneous and travel	1 390	1 450	60
Capital outlay and radio tower	8 806	11 000	2 194
Sidewalk repair	280	3 000	2 720
Total	<u>19 599</u>	<u>24 972</u>	<u>5 373</u>
MAYOR - salary & travel	<u>300</u>	<u>1 500</u>	<u>1 200</u>
<b>ELECTIONS:</b>			
Salaries	276	500	224
Printing, supplies & misc.	345	650	305
Total	<u>621</u>	<u>1 150</u>	<u>529</u>
<b>GENERAL SERVICES:</b>			
City Attorney - legal fees	680	3 000	2 320
Assessor - salary & expenses	6 026	5 950	( 76)
Administrative and bookkeeper - salary & expenses	15 037	14 872	( 165)
Board of Review	499	670	171
Treasurer - salary & expenses	4 852	5 345	493
Building inspector - salary expenses	2 244	3 600	1 356
Zoning and miscellaneous	811	1 515	704
Streets vehicle expense	13 200	15 875	2 675
Surveyor and appraisal fees	150	500	350
Total	<u>43 499</u>	<u>51 327</u>	<u>7 828</u>
<b>FIRE DEPARTMENT:</b>			
Education	-	300	300
Insurance	4 600	4 880	280
Utilities and phone	2 020	1 380	( 640)
Maintenance and fuel	530	2 100	1 570
Capital outlay	4 250	4 250	-
Total	<u>11 400</u>	<u>12 910</u>	<u>1 510</u>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES -  
BUDGET AND ACTUAL  
GENERAL FUND  
YEAR ENDED JUNE 30, 2004

	Actual Amount	Budget Amount	Variance Favorable (Unfavorable)
SANITATION:			
Salaries	\$ 2 918	\$ 2 000	\$ ( 918)
Payroll tax & benefits	2 384	2 273	( 111)
Repairs & contract labor	247	500	253
Pit rental	400	400	-
Miscellaneous & Capital outlay	216	1 455	1 239
Total	6 165	6 628	463
PARKS:			
Salaries	7 389	8 190	801
Payroll tax & fringe benefits	3 913	4 395	482
Insurance	1 072	945	( 127)
Capital outlay	15 947	16 000	53
Maintenance, utilities & misc.	3 853	8 500	4 647
Total	32 174	38 030	5 856
LAW ENFORCEMENT			
Salaries and operating expenses	12 766	19 694	6 928
Capital outlay	-	2 500	2 500
Total	12 766	22 194	9 428
ADMINISTRATIVE:			
Office supplies and website	1 580	2 300	720
Repairs - municipal building	1 391	3 950	2 559
Audit fees	2 000	2 100	100
Telephone	905	1 275	370
Insurance	933	1 115	182
Dues	1 050	1 000	( 50)
Capital outlay & equipment	1 378	1 600	222
Metro wages and benefits	202	-	( 202)
Total	9 439	13 340	3 901
SERVICES TO OTHER FUNDS:			
Electric Fund	\$ 1 179	\$ 1 179	\$ -
Total	1 179	1 179	-
TOTAL EXPENDITURES	\$ 137 142	\$ 173 230	\$ 36 088
OUTGOING TRANSFERS:			
Transfer to Major Streets	\$ 25 000	\$ 25 000	\$ -

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES  
UTILITY FUND  
YEAR ENDED JUNE 30, 2004

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ELECTRIC

Purchase of electricity	\$ 297 052
Depreciation expense	21 826
Salaries	30 724
Payroll taxes	2 202
Fringe benefits	11 365
Office supplies	3 205
Maintenance and supplies	16 486
Contract service	2 778
Transportation - gas	919
Truck maintenance	1 782
Insurance	1 852
Heat and telephone	2 370
Dues and fees	1 232
sales tax	13 674
Rentals	171
Training and miscellaneous	<u>276</u>
Total	<u>407 914</u>

SEWER - COLLECTION

Salaries	3 441
Payroll taxes	694
Fringe benefits	1 660
Worker's compensation & insurance	607
Maintenance and supplies	1 152
Depreciation expense	4 066
Contract services	1 557
Miscellaneous and training	<u>470</u>
Total	<u>13 647</u>

SEWER - OPERATING

Salary	112
Payroll taxes	9
Fringe benefits	84
Insurance	1 314
Contract services	125 098
Depreciation	36 598
Supplies	3 577
Repairs and maintenance	4 003
Licenses	<u>1 950</u>
Total	<u>172 745</u>

CITY OF STEPHENSON  
SCHEDULE OF EXPENDITURES  
UTILITY FUND  
YEAR ENDED JUNE 30, 2004

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WATER

Salaries	\$ 20 240
Payroll taxes	1 266
Fringe benefits	9 650
Maintenance, supplies and rents	4 349
Contract services	82
Transportation	1 016
Insurance	1 806
Utilities and telephone	3 375
Sample testing	2 006
Miscellaneous and training	1 557
Depreciation	<u>15 637</u>

Total

60 984

TOTAL EXPENDITURES

\$ 655 290

CITY OF STEPHENSON  
ASSESSED VALUATION, TAX RATES AND TAX LEVIES  
YEAR ENDED JUNE 30, 2004

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	<u>Stephenson Area Public Schools</u>	<u>Menominee County</u>	<u>Intermediate Schools</u>
Taxable valuation	\$ 10 716 757	\$10 716 757	\$10 716 757
Millage rate	21.6000	9.0419	2.3178
Levy	\$ 109 192	\$ 96 878	\$ 24 833
Less - returned delinquent	<u>( 11 009)</u>	<u>( 9 376)</u>	<u>( 2 337)</u>
Current tax collection	<u>\$ 98 183</u>	<u>\$ 87 502</u>	<u>\$ 22 496</u>

<u>City of Stephenson</u>	<u>State of Michigan S.E.T.</u>
\$ 10 716 757	\$ 10 716 757
5.0000	5.0000
\$ 53 575	\$ 53 575
<u>( 5 179)</u>	<u>( 2 477)</u>
\$ 48 396	\$ 51 098

RAYMOND L. PAYMENT  
CERTIFIED PUBLIC ACCOUNTANT

1217 LUDINGTON STREET  
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July 23, 2004

PROFESSIONAL BUILDING  
STEPHENSON, MICHIGAN 49887  
PHONE: 906-753-4700

REPORT ON COMPLIANCE AND ON INTERNAL CONTROL  
OVER FINANCIAL REPORTING BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH  
"GOVERNMENT AUDITING STANDARDS"

Honorable City Council  
City of Stephenson  
Stephenson, Michigan

I have audited the general purpose financial statements of the City of Stephenson as of and for the year ended June 30, 2004, and have issued my report thereon dated July 23, 2004. I conducted my audit in accordance with auditing standards accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Stephenson's general purpose financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit, and accordingly, I do not express such an opinion. The results of my tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

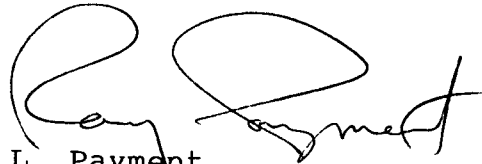
In planning and performing my audit I considered the City of Stephenson's internal control over financial reporting in order to determine my audit procedures for the purpose of expressing my opinion on the general purpose financial statements and not to provide assurance on the internal control over financial reporting. My consideration of the internal control over financial reporting would not necessarily disclose all matter in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce



July 23, 2004

to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. I noted no matters involving the internal control over financial reporting and its operation that I consider to be material weaknesses.

This report is intended solely for the information and use of the audit committee, management, others within the organization, City Council, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

A handwritten signature in black ink, appearing to read "Ray L. Payment". The signature is stylized with large, flowing loops.

Ray L. Payment  
Certified Public Accountant